

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6179**

**BILL NUMBER:** HB 1499

**DATE PREPARED:** Jan 6, 1999

**BILL AMENDED:**

**SUBJECT:** School Group Health Plans.

**FISCAL ANALYST:** Alan Gossard

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**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows active and retired school corporation employees and active and retired employees of other local governmental units to participate in any health care plan offered by the state to state employees. The bill allows a school corporation and a local governmental entity to elect the coverage. It also requires the state to deduct the appropriate amount of money from the school corporation's monthly tuition support distribution and from the local governmental unit's semiannual Cigarette Tax distribution to cover the cost of the coverage.

This bill also prohibits state universities from purchasing or renewing group health insurance after June 30, 1999. It provides that employees of state universities are eligible for coverage under health insurance plans established for state employees and that this coverage begins when the state university's current health insurance program expires. The bill also provides that employees of state universities who retire after June 30, 1999, are entitled to the same type of health insurance coverage as retired state employees.

**Effective Date:** July 1, 1999.

**Explanation of State Expenditures:** The impact to the state takes three forms: (1) the impact on the amounts paid for employee health benefits by the state universities; (2) the impact on state employee health plan costs because of the **requirement** that employees of state universities be included in the state health plan; and (3) the impact on state employee health plan costs because of the **option** of local governments and school corporations to participate in the state employee health plan.

***Impact on Costs Faced by State Universities:***

The state universities have a variety of group health insurance plans and prepaid health care delivery plans available for their employees with varying levels of employer/employee contributions. The following is based on an October 1998 survey of the state universities. The analysis assumes that the state university employees

would be placed on the state's traditional health care plan or a composite HMO plan under two payment scenarios: (Scenario 1) State universities would pay the same premium contribution that the state currently contributes for state employee health benefits with the university employees picking up the remainder; and (Scenario 2) The state university employee contribution toward health insurance would be held constant with the universities picking up the difference. (Ultimately, the relative contributions will probably depend upon future negotiations or administrative actions.)

There are currently about 37,630 employees participating in the state health plans and about 29,350 participating in state university health plans. Implicit in this analysis are the assumptions that: (1) the aggregate claims experience of the state university employees is similar to that of the state employees and, thus, would not affect per capita insurance costs for the state health plans; and (2) the differences in health plan costs faced by the universities is due to differences in plan structures; the employer/employee cost shares; and, potentially, purchasing power. (The aggregate employer contribution by state universities is about 83% of health benefit costs compared to 95% contributed by the state.)

*Scenario 1:* Assuming the state university employees were placed on the state's health care plan and the state universities would pay the current employer contribution paid by the state, the net annual addition in health insurance costs for the state universities is estimated to be about \$18.9 million. Under this scenario, only one of the seven state universities would pay less under the state employee health plan than they currently pay.

*Scenario 2:* In the scenario where the university employee payment is held constant and the universities pay the balance of the premium, the net additional cost to the universities is estimated to be about \$13.8 million. Under this scenario, three of the universities would pay less under the state employee health plan than they currently pay.

The bill is silent on university reimbursement to the state or change in appropriations to compensate for the increased costs borne by the state for providing coverage to the state university employees.

[Note: Differences in health insurance benefit packages are not considered here. This analysis also considers current health plan costs without consideration of future price increases or the specific expiration dates of university plans. It is also assumed that the nearly 30,000 state university employees would have generally the same claims experience and risk factors as the current pool of state employees and would not affect the per person cost. No potential reduction in costs is assumed for the possibility that rates might be lowered due to the nearly doubling of employees covered. Also, the state university employees who are on Employee+Spouse or Employee+Children policies offered by the state universities were costed at the family coverage price offered by the state. Should the state offer Employee+Spouse or Employee+Children plans, the costs mentioned above might be different.]

***Impact on State Employee Health Plan Costs from Adding State University Employees:***

Since the state universities are required to participate in the state health plans, the university employees would probably have similar claims experience and risk factors as the current pool of state employees and would likely have little effect on the per capita claims cost currently faced by the state.

Addition of the state university employees would nearly double the number of individuals provided health benefits through the state health plans. Consequently, there could potentially be some additional purchasing power realized, especially with respect to the prepaid health plans.

There could be some additional administrative cost shifting from the state universities to the state for the coverage of the additional state university employees as well as some overall administrative savings. This cost is undetermined at this time and depends upon how these provisions will be implemented.

***Impact on State Employee Health Plan Costs from Adding Local Governments and School Corporations:***

Since the decision to join the state health plan is optional for school corporations and local governmental units, it is likely that there would be an impact on premium prices and claims costs faced by the state due to adverse selection. This could result since those entities with higher health plan costs resulting from higher claims experiences would tend to be the entities opting into the program. (Note: It is also possible that some entities that might choose to opt in could have more expensive plan structures, rather than just higher claims experiences, that would contribute toward their higher health plan costs.)

There would likely be additional administrative costs to the state for covering and enrolling employees of the school corporations and local governments. The additional costs would depend upon local decisions as to participation in the state program. On the other hand, there could be some economies of size resulting in system-wide administrative savings or reduction in workload among all the various entities. These costs are undetermined and would depend upon the decisions of the various entities as to participation in the state program and upon the financial arrangements established by the state for participation.

If coverage is elected, the state would deduct the appropriate amount of money from the school corporation's monthly tuition support distribution or, in the case of local governmental units, the semiannual cigarette tax distribution. (Currently, 7/31 of the Cigarette Tax revenue is deposited into the Cigarette Tax Fund. 2/3 of the Cigarette Tax Fund is then distributed to cities and towns on the basis of population.)

There could also potentially be some additional purchasing power off-setting some of the additional costs due to adverse selection, depending upon the number and geographical distribution of school corporations and local governments that opt into the state program. There are about 57,000 certified teacher FTEs (full-time equivalents), more than 9,000 certified non-teacher FTEs, and about 61,000 non-certified employees in school systems throughout the state. There are about 74,000 FTEs employed by local governments in the state. This compares with 37,630 employees currently on the state health plans.

Although the relative impacts of adverse selection, purchasing power, and economies of size are not known, much of the potential for additional discounts due to added purchasing power may have already been realized by the state. The risks due to adverse selection from optional participation is likely to be greater than the benefits from additional purchasing power and economies of size.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** This bill allows active and retired employees of school corporations and local governments to participate in any health care plan offered by the state. The decision would be at the discretion of the school corporation or local government.

If coverage is elected, the state would deduct the appropriate amount of money from the school corporation's monthly tuition support distribution or, in the case of local governmental units, the semiannual cigarette tax distribution. (Currently, 7/31 of the Cigarette Tax revenue is deposited into the Cigarette Tax Fund. 2/3 of the Cigarette Tax Fund is then distributed to cities and towns on the basis of population.)

It is not known how many school corporations or local governmental units would opt to participate in the state's health plan. However, assuming entities which would benefit from opting into the state plan would do so, these school corporations and local governments would realize some savings for insurance, as well as savings in the administration of employee health plans. These savings are indeterminable and would differ among school corporations and local governments.

The following tables detail average premium prices, employer contributions, and employee contributions for school corporation health plans (288 corporations reporting), the state traditional plans, and the various state health maintenance organization (HMO) plans.

<b>Single Person Plans</b>			
	<b>Average Premium</b>	<b>Average Employer Contribution</b>	<b>Average Employee Contribution</b>
<b>School Corporations *</b>	\$2,480.00	\$2,187.00	\$293.00
<b>State Traditional Plans**</b>	2,176.46	2,092.74	83.72
<b>State HMO (Low)**</b>	2,036.58	2,036.58	0.00
<b>State HMO (High)**</b>	2,085.72	2,085.72	0.00
* Data for 1997/98 school year. ** Data for FY98 to match up with school corporation data.			

Out of the 288 school corporations reporting, 199 (or 69%) had premium costs for single plans greater than the cost of the state traditional plans.

<b>Family Plans</b>			
	<b>Average Premium</b>	<b>Average Employer Contribution</b>	<b>Average Employee Contribution</b>
<b>School Corporations *</b>	\$6,270.00	\$4,546.00	\$1,724.00
<b>State Traditional Plans**</b>	6,254.30	5,254.34	999.96
<b>State HMO (Low)**</b>	5,127.72	5,127.72	0.00
<b>State HMO (High)**</b>	6,242.86	5,254.34	988.52
* Data for 1997/98 school year. ** Data for FY98 to match up with school corporation data.			

Out of the 288 school corporations reporting, 124 (or 43%) had premium costs for family plans greater than the cost of the state traditional plans.

**Explanation of Local Revenues:** See Explanation of Local Expenditures, above, regarding monthly tuition support distributions for school corporations and Cigarette Tax Fund distributions for local governments.

**State Agencies Affected:** State Department of Personnel; State Universities

**Local Agencies Affected:** School Corporations; Local Governments

**Information Sources:** Keith Beesley, State Personnel Department, 232-3062.  
Nelson Miller, Indiana School Boards Association, 639-0330  
State Universities.